

J.P. Morgan Property Exchange Inc. (JPEX)

Forward Like-Kind Exchange Services

Overview

Like-Kind Exchanges (LKEs) are tax-advantaged vehicles that provide an efficient way to defer the tax on gains from the sale of real or personal property when replaced with Like-Kind property. For both real and personal property exchanges, an LKE can also defer the ordinary “recapture” component of tax. Internal Revenue Code Section 1031 offers a “safe harbor” to taxpayers (Exchangors) that use a Qualified Intermediary (QI) such as JPEX. A QI is an independent third party charged with holding the Exchangor’s funds during the period between disposition of property (Relinquished Property) and acquisition of property (Replacement Property).

Exchange rules

The rules for an LKE are straightforward and very important. A valid LKE requires in part that:

- The property must held be for investment purposes or for productive use in business. Therefore, LKE treatment is not available to dealers selling inventory.
- The Exchangor may not receive the cash proceeds from the sale. To avoid actual or constructive receipt, funds are held in an exchange account during the exchange period.
- Legal documents required include an Exchange Agreement as well as certain assignments and notices prior to closing.

- To fully defer the capital gains tax or recapture, the Replacement Property should be of equal or greater value to the Relinquished Property and have equal or greater equity and debt.
- The Exchangor, within 45 calendar days from the disposition of the Relinquished Property, must clearly and unambiguously identify up to three potential Replacement Properties.
- The Exchangor may identify more than three properties so long as their combined fair market value does not exceed 200% of the value of the Relinquished Property.
- The Exchangor may exceed the 200% limitation, only if it then acquires 95% of the fair market value of the properties identified to fulfill the requirements of Section 1031.
- Within 180 calendar days from the date of the transfer of the Relinquished Property, the Exchangor must acquire one or more identified Replacement Properties.
- Each Replacement Property must be “Like-Kind” to the Relinquished Property. In general, real property held for investment purposes or for productive use in business is like-kind to other real property. With tangible personal property, the assets need to be within the same class or NAIC code, as provided for in the relevant regulations.

Like-Kind Exchange steps

When an Exchangor wishes to structure an LKE transaction by using JPEX as the QI, the following steps are typically undertaken:

1. The Exchangor finds a buyer for its Relinquished Property and enters into a sales contract. JPEX can provide “Cooperation Language”, which Exchangor may insert directly, or by addendum, into the contract notifying the parties that the seller intends to complete an LKE.
2. JPEX prepares the exchange documents for the Exchangor and their counsel/ advisor to review. If acceptable, the Exchangor should then execute drafts of the documents.
3. The Exchangor then executes these documents and assigns its rights, but not obligations, in the Sales Contract to JPEX (with written notice to all parties), acting as the QI to allow the Exchangor to defer capital gains taxes or recapture on the sale of the Relinquished Property. JPEX does not take title to the Relinquished Property.
4. JPEX is deemed to transfer the Relinquished Property to the buyer when the Exchangor transfers title directly to the buyer. This begins the exchange of the Relinquished Property.

5. Buyer pays JPEX, acting as QI, the purchase price for the Relinquished Property completing the first leg of the exchange. Proceeds from the sale are placed in an exchange account at JPMorgan Chase Bank, NA.
6. After the sale of the Relinquished Property, the Exchangor must identify unambiguously and in writing (often by street, city, and state; legal description; or tax map parcel) potential Replacement Property within 45 days and acquire Replacement Property within 180 days.
7. The Exchangor enters into a Contract to acquire Replacement Property. Exchangor's rights in the Replacement Property contract are assigned to the QI with written notice to all parties to the contract. JPEX does not take title to Replacement Property.
8. The proceeds from the sale of the Relinquished Property (held in the exchange account) are used to purchase the Replacement Property. Any additional funds needed to acquire the Replacement Property will be provided by the Exchangor.
9. JPEX is deemed to transfer Replacement Property to the Exchangor when the seller transfers title directly to Exchangor. This completes Exchangor's LKE transaction.

IRS circular 230 disclosure

JPMorgan Chase & Co. and its affiliates do not provide tax advice. Accordingly, any discussion of U.S. tax matters contained herein (including any attachments) is not intended or written to be used, and cannot be used, in connection with the promotion, marketing or recommendation by anyone unaffiliated with JPMorgan Chase & Co. of any of the matters addressed herein or for the purpose of avoiding U.S. tax-related penalties.

Treasury regulations disclosure requirements

You and each of your employees, representatives, or other agents may disclose to any and all persons without any limitations of any kind, U.S. federal income tax treatment and U.S. federal income tax structure of the transaction described herein and (except to the extent expressly noted in writing by; J.P. Morgan Property Exchange Inc.) of all transactions that J.P. Morgan Property Exchange Inc. shall describe to you in the future, and in all materials of any kind (including tax opinions or analyses) that are provided to you related to such tax treatment and tax structure.

Contact us

J.P. Morgan Property Exchange Inc. (JPEX) is one of the country's leading providers of IRC Section 1031 Like-Kind Exchange (LKE) consulting and qualified intermediary (QI) services.

JPEX has closed billions of dollars in tax-deferred transactions involving many property types such as real estate, aircraft, and equipment. The hallmark of JPEX is the provision of a high level of personalized service. JPEX's team of experienced professionals is skilled at conducting all types of LKEs.

For more information about JPEX services, please contact us at 1-800-397-8529 or visit our Web site at www.ipex1031.com.